

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE







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TO THE SHAREOWNERS:

While last year's results reflect the huge one-time cost of the government ban on cyclamates in diet soft drinks, recovery has already started. At the close of a decade when sales and earnings were quadrupled, several positive factors point to a bright new future.

First, a better-than-ever Diet Rite Cola is now on the market. Just two days after the federal ban, the new Diet Rite Cola without cyclamate was ready. It was the first low-calorie drink to get back onto store shelves. While sales of the brand were adversely affected immediately following the ban, each succeeding month has shown improvement. It is expected that sales of this better tasting product will attain and ultimately exceed prior levels. We urge you to try the new Diet Rite Cola.

Second, following the outstanding reception of Gatorade Citrus and Gatorade Cola in test markets, this new product is being moved rapidly into national distribution. Gatorade is the first

real innovation in soft drinks since the advent of Diet Rite in the early 1960's, and the first real thirst quencher.

Third, the business base and capabilities of your Company were broadened in two areas. Company-owned bottling operations were expanded by pooling interests with four large, profitable soft drink corporations franchised in the Florida peninsula. This provides a large, contiguous marketing complex in which to develop more effective and efficient marketing techniques that can have broad application to the overall business.

Also, the Company purchased a manufacturer of decorative home accessories. Known as National Art Company, it markets framed pictures, mirrors, wall plaques and other artistic wall articles to the mass home market, the same target as that for soft drinks. The business is growing rapidly in sales and profits and is expected to increase even more in the future as the



WILLIAM C. DURKEE
President and Chief Executive

population and number of housing units grow.

Further, to move the business forward aggressively, your Company pioneered RC Cola With A Twist, a second flavor of its principal product, Royal Crown Cola, and introduced it into 27 markets. Nehi flavors were reintroduced in modern packages. Appointed advertising agency for all products is Wells, Rich, Greene, Inc., known for its fresh approaches and special appeal to the young.

Two special comments are called for with respect to the financial statements. In addition to the costs of introducing the new products, earnings were sharply affected by the government abruptly banning cyclamates. Immediately obsolesced were related inventories of ingredients, packages and supplies. Production schedules were adjusted. Relationships with various suppliers, franchised bottlers and consumers were interrupted. Direct costs of the ban were identified as closely as possible and charged as an

extraordinary nonrecurring and nonoperating amount.

Because of the major impact of the decision, other elements of the business, related to and indirectly identifiable with the ban, were also examined at the same time. The useful economic values of intangible marketing assets and obligations and physical equipment were estimated in accordance with the change in future operating conditions. The net effect of these indirect costs was also charged as an extraordinary nonrecurring and nonoperating amount.

The recovery which has already started from the low point reached during the last quarter indicates significant improvement in earnings over the longer term. Representing the management and the Board of your Company, we feel confident that introduction of new products, expansion of the business base and the other innovations described above will move your Company forward in the 1970s to new records.

February 14, 1970



T. C. Burke

William T. Young

WILLIAM T. YOUNG
Chairman of the Board

THE YEAR IN REVIEW

BROADENING THE BASE

On June 30, 1969, the Company pooled interests with Royal Crown Bottling Company of Miami, Inc., and its three wholly owned subsidiaries. The Florida corporation operates profitable Royal Crown Cola Co. franchises in Miami, Jacksonville, Tampa and West Palm Beach.

Together with the adjacent Orlando franchise, already owned and operated by the Company, these additions permit us to serve over 85 per cent of the Florida peninsula as one contiguous marketing complex. The per capita consumption of this area is already above average, and is expected to continue to increase.

Such a marketing area, under the direction of company management, opens up opportunities for production and distribution efficiencies, and allows for the development and implementation of new marketing techniques which can have broad application to our overall business.

As a further step toward broadening our base, in September 1969, we purchased National Art Company, of Greenwood, Mississippi. As producers and marketers of decorative art and home furnishings, National Art's recent rate of growth has been exceptionally fast.

Its progress is expected to continue and accelerate with the continued expansion of housing units and the full exploitation of marketing and merchandising opportunities in connection with its relationship to our Company.

INTERNAL EXPANSION

In March of 1969, the Company completed construction of a fourth concentrate manufacturing facility. The new plant is located in La Mirada, California, and improves service to the Western States which formerly received concentrate shipments from our Granite City, Illinois plant.

The Company also purchased additional land in Orlando, Florida for future expansion of that Company-owned facility; set up new lines of production for non-returnable party-size beverages in Tampa and Columbus; and purchased new beverage canning equipment for the Orlando canning plant.

In addition to Company expenditures for new plant and equipment facilities, the Company's franchised bottlers invested in excess of \$10,000,000 in land, buildings, machinery and equipment to increase production capacities and better serve their franchise areas.

Completely new bottling plants were completed during the year in Grand Rapids, Michigan, Springfield, Massachusetts, and Miami, Florida.

PRODUCT ADVERTISING AND MARKETING

Wells, Rich, Greene, Inc., an advertising agency internationally known for its fresh new approaches to product advertising, was appointed effective July 1 to create exciting new advertising campaigns for the company's major products.

Among the agency's highly successful campaigns have been those for Braniff Airways, Inc., American Motors and Benson & Hedges cigarettes. By October, the first fruits of their efforts in behalf of Royal Crown Cola Co. brands

were completed, and presented to Bottlers at the national bottler meeting.

Beginning November 1, television commercials for RC and Diet Rite Cola were being aired by Bottlers from coast to coast.

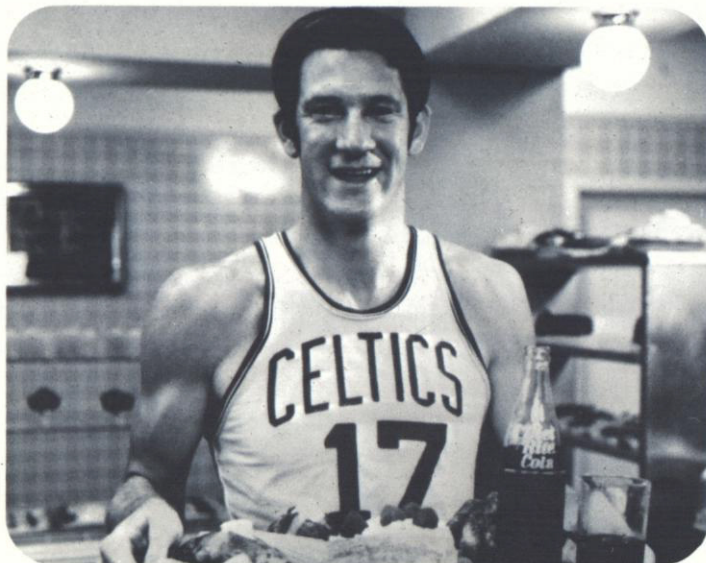
The new RC campaign positions our cola as a contender for leadership in some of the major markets of the world, and centers around the phrase, "We Cool Off The Hot Towns."

Diet Rite is depicted as the low calorie cola that "tastes so good even non-dieters drink it," and features such unlikely diet drinkers as Twiggy, John Havlicek and Lena Horne in musical endorsements of the product.

The Wells, Rich, Greene appointment brings to the total marketing effort of Royal Crown Cola the services of an agency whose aggressiveness and spirit of innovation closely parallels that of the Company.



The RC Flying Bottle over a "Hot Town," New York, as part of the 1970 RC television campaign.



John Havlicek, star of the Boston Celtics of the NBA, stars too on television for new Diet Rite Cola.



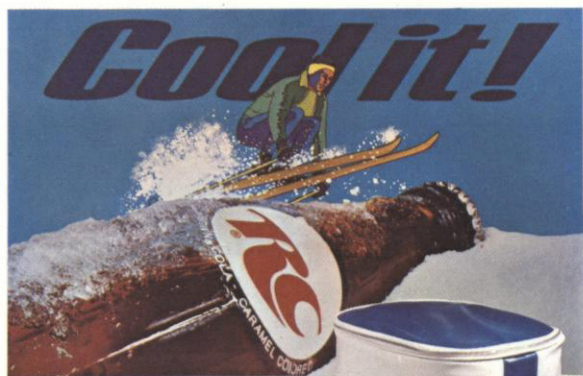
Mary Wells Lawrence, President, Wells, Rich, Greene, Inc., advertising agency for Royal Crown Cola Co.

ROYAL CROWN COLA

During 1969, the product RC continued its sales gains in key major markets throughout the country, and posted good overall sales increases over the previous year.

This year, Bottlers across the nation completed the implementation of a total new package design for the brand. Designed for maximum shelf impact consistent with consumer eye appeal, the new RC "look" pervades every graphic representation of the brand, including bottles, cartons, cans, labels, cups, cases, trucks and all supporting point-of-sale advertising.

The introduction was accomplished with special television commercials, full page newspaper ads, special merchandising kits, and a complete assortment of signs and point-of-sale displays.



RC COLA WITH A TWIST

During the final quarter of 1969, Royal Crown Cola Co. pioneered the venture of a flavor extension of an existing, established cola. Known as RC Cola With A Twist, the product actually represents a companion flavor variation of its spearhead brand—a delightful touch of lemon subtly blended with the cola.

RC Cola With A Twist is packaged, merchandised and advertised as a separate product, and following successful tests, was extended to 27 markets during the last two months of the year.

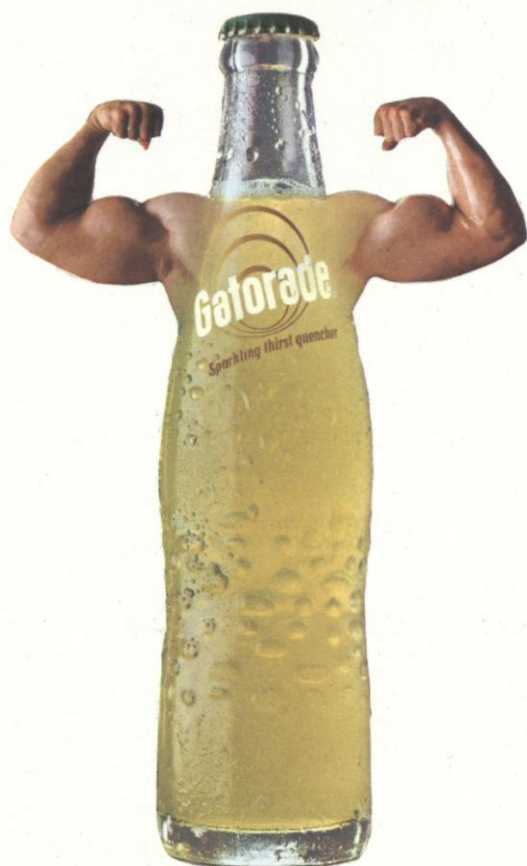
It holds promise of substantially increasing RC's share of the total cola market, and is being aggressively expanded into additional markets.

GATORADE

Following the outstanding reception to new carbonated Gatorade in introductory test markets, the Company began moving towards national distribution during the latter part of 1969.

A complete program for introducing and selling Gatorade was unveiled to Bottlers at the October meeting, and this new concept in carbonated refreshment holds promise of reaching or exceeding a market penetration comparable to that attained by Diet Rite Cola during its initial introductory period.

By the fourth quarter of 1969, Gatorade had been introduced into more than 150 markets, and was demonstrating gratifying sales vitality as a percentage of individual bottler's sales.



DIET RITE COLA

On Saturday, October 18, the U.S. Secretary of Health, Education and Welfare ordered that the use of cyclamates in the production of soft drinks be discontinued.

Within 48 hours—by Monday, October 20—our Company had formulated a new Diet Rite Cola concentrate without cyclamates for shipment to franchised bottlers.

Simultaneously, the Company advised its bottlers of the details of the government action, and provided them with the necessary information and guidance as to how to get new Diet Rite Cola into channels of distribution in the shortest time possible.

During the same time span, Royal Crown Cola Co. issued instructions to suppliers for revision of packages and labels, and by Wednesday, October 23, had actually shipped basic point-of-sale supplies to Diet Rite Cola franchisees.

Thus, virtually overnight, Diet Rite Cola bottlers were brought up to date on the implications of the ban and provided with guidance, direction and tools with which to meet the emergency.



These prompt and decisive steps crystallized action among Royal Crown Cola Co. franchisees, minimized losses, and put the company and its bottlers a "step ahead" in getting the problem behind us.

Thus, although the initial losses by the Company and its bottlers are facts, the very positive results of prompt, decisive action, indicate a continued recovery of growth momentum.

At year's end, newly formulated Diet Rite Cola, freed of the cyclamate stigma, was winning increasingly greater consumer acceptance. A few markets reported sales performances which exceeded their previous volumes for the old formula.

"PARTY SIZE" BEVERAGES

To exploit the growing popularity of "party-size" or "quart-size" non-returnable bottles with convenient re-sealable closures, Royal Crown Cola Co. undertook a program designed to permit all of its franchised bottlers to participate in the sale of the package, whether or not they were equipped to produce it.

Basically, the program provides for the establishment of "production centers" within broad marketing areas, together with a common merchandising and advertising effort.

Described collectively as "The Biggies", each party-size brand is promoted individually in a manner appropriate to its present selling concept. Thus party-size RC becomes "The Big Cool"; Diet Rite Cola, "The Big Thin"; Par-T-Pak beverages, "The Big Mix"; and Nehi, "The Big Deal."

The concept has proven successful within the marketing areas established during 1969, and expansion to national availability is underway.

NEHI

In March of 1969, just ahead of the peak flavor season, the Company undertook a fresh approach to the marketing of Nehi flavors.

Plans prepared for franchised bottlers included a complete re-design of Nehi packaging, tailored to reflect the vitality and quality of Nehi flavors and to direct its appeal to the youth market which it largely serves.

Proven flavor marketing programs were outlined and supported by fresh, new point-of-sale supplies and local market sales promotion activities.

New media advertising materials were also a part of the new approach, and Nehi flavors became an integral part of the company's "party-size" marketing program.

Nehi sales for 1969 reflected the special effort given the brand, and during the October Bottler's meeting, a second phase of the special marketing program was outlined to bottlers for use in 1970.



CONSOLIDATED CURRENT AND RETAINED INCOME

Royal Crown Cola Co. and Subsidiaries

	Year ended December 31	
	1969	1968
Products sold.....	\$92,750,627	83,786,727
Cost of products sold.....	<u>48,736,902</u>	<u>40,359,968</u>
Gross margin.....	44,013,725	43,426,759
Marketing, selling and administration.....	<u>36,076,326</u>	<u>32,375,490</u>
Operating margin.....	7,937,399	11,051,269
Other income, net.....	<u>154,676</u>	<u>185,766</u>
Pretax income.....	8,092,075	11,237,035
Federal and state income taxes provided.....	<u>4,592,450</u>	<u>5,916,013</u>
Income before nonrecurring losses:		
61¢ per share.....	3,499,625	
93¢ per share.....		5,321,022
Nonrecurring losses, Note 2:		
30¢ per share.....	<u>1,704,025</u>	
Net income after nonrecurring losses:		
31¢ per share.....	1,795,600	
93¢ per share.....		5,321,022
Dividends declared:		
54¢ per share.....	3,074,695	
49½¢ per share.....		<u>2,785,631</u>
Income retained in (withdrawn from) the business:		
During the year.....	(1,279,095)	2,535,391
At beginning of the year.....	<u>19,406,969</u>	<u>16,871,578</u>
At end of the year.....	<u>\$18,127,874</u>	<u>19,406,969</u>

See accompanying notes to financial statements

CONSOLIDATED SOURCE AND USE OF FUNDS

Royal Crown Cola Co. and Subsidiaries

	Year ended December 31	
	<u>1969</u>	<u>1968</u>
Source:		
Operations:		
Net income, Note 2	\$ 1,795,600	5,321,022
Depreciation and amortization provided to recover the cost of fixed assets evenly during their expected useful lives, Note 2	4,358,476	2,929,986
Federal income tax deferred.	(953,402)	338,315
	<u>5,200,674</u>	<u>8,589,323</u>
Fixed assets sold or retired.	1,570,043	1,052,406
Term notes payable issued.	2,003,952	
Term receivables and other assets liquidated.		339,992
Common shares issued.	30,435	421,500
	<u>8,805,104</u>	<u>10,403,221</u>
Use:		
Fixed assets added and replaced.	5,424,009	4,477,988
Businesses acquired	3,068,682	
Invested in term receivables and other assets.	650,588	
Term notes liquidated.		101,767
Treasury shares purchased.	694,451	
Dividends declared.	3,074,695	2,785,631
	<u>12,912,425</u>	<u>7,365,386</u>
Working funds:		
Net increase (decrease) during the year	(4,107,321)	3,037,835
At beginning of the year.	<u>11,128,917</u>	<u>8,091,082</u>
At end of the year.	<u>\$ 7,021,596</u>	<u>11,128,917</u>

See accompanying notes to financial statements

CONSOLIDATED FINANCIAL POSITION Royal Crown Cola Co. and Subsidiaries

NET ASSETS	December 31	
	1969	1968
Working funds:		
Current assets:		
Cash.....	\$ 3,720,478	3,272,092
Marketable securities at cost, approximately market.....	300,000	2,587,234
Refundable federal and state income taxes.....	1,897,727	
Accounts receivable:		
Trade.....	6,579,019	5,050,615
Other.....	546,818	1,370,034
Inventories at the lower of average cost or market:		
Products finished and in process.....	2,995,419	2,685,858
Materials and supplies.....	2,832,627	3,079,003
Prepaid expenses.....	1,799,362	2,427,831
Total current assets.....	20,671,450	20,472,667
Current liabilities:		
Accrued federal and state income taxes.....		1,570,936
Notes payable.....	2,194,809	918,688
Trade accounts payable.....	6,525,967	3,212,703
Accrued advertising and payrolls.....	4,929,078	3,641,423
Total current liabilities.....	13,649,854	9,343,750
Net working funds.....	7,021,596	11,128,917
Fixed assets, Notes 1 and 2:		
Buildings.....	6,701,562	6,063,926
Production equipment.....	9,438,977	8,929,667
Delivery equipment.....	9,924,031	10,193,266
Depreciable assets at cost.....	26,064,570	25,186,859
Accumulated depreciation.....	11,042,564	9,454,191
Net depreciable assets.....	15,022,006	15,732,668
Land at cost.....	1,405,740	1,199,588
Net fixed assets.....	16,427,746	16,932,256
Acquired businesses at cost less book value, Note 1.....	3,068,682	
Term receivables and other assets.....	1,532,757	882,169
Total working funds, fixed and other assets.....	28,050,781	28,943,342
Notes payable:		
To bank March 24, 1971 at prime commercial rate.....	(2,000,000)	
To others in varying annual amounts to 1977.....	(2,409,143)	(2,405,191)
Deferred federal income taxes.....	(711,897)	(1,665,299)
Contingent liability as guarantor of customers'		
\$4,108,874 financing.....		
Net assets in which shareowners' equity is invested.....	\$22,929,741	24,872,852

See accompanying note to financial statements

CONSOLIDATED FINANCIAL POSITION Royal Crown Cola Co. and Subsidiaries

	December 31	
	1969	1968
SHAREOWNERS' EQUITY		
Shares:		
Preferred at no par; authorized 3,000,000; none issued		
Common at \$1 par; authorized 12,000,000; issued:		
1969—5,817,565.	\$ 5,817,565	
1968—5,816,065.		5,816,065
Capital in excess of par, Notes 1 and 3.	318,871	289,936
Income retained in the business, Note 1.	18,127,874	19,406,969
	<u>24,264,310</u>	<u>25,512,970</u>
Common shares in treasury at cost, Notes 1 and 3:		
1969—78,876.	1,334,569	
1968—46,356.		640,118
Total shareowners' equity.	<u>\$22,929,741</u>	<u>24,872,852</u>

NOTES TO FINANCIAL STATEMENTS

1. Statements for each year were restated as 121,500 common shares were exchanged June 30, 1969 for all outstanding shares of Royal Crown Bottling Company of Miami, Inc. The pooling of interests increased Capital in excess of par by \$214,737 and Income retained in the business by \$663,126 over that reported at December 31, 1968. During 1969 two businesses were purchased for \$3,068,682 more than the sum of the fair value of each asset acquired. As the assets will be operated as a group, the excess has continuing value and thus is not being amortized.

2. A foreign subsidiary was liquidated during 1969. Its prior operating losses were included in the statements but were not deducted in tax returns. The loss realized at liquidation is an ordinary deduction in the opinion of tax counsel who relied on management judgments as to certain factual matters. The net credit resulting therefrom and from the sale of 2 bottling subsidiaries was \$1,291,663.

When the government banned cyclamates from diet soft drinks October 18, 1969, inventories of ingredients, packages and marketing supplies were obsolesced immediately at direct costs of \$5,346,900 less \$2,927,000 taxes. Related and indirect costs of \$1,236,788 less \$661,000 taxes were incurred for physical equipment affected by the ban and obsolescence. After the ban, unrelated receivables, inventories of containers and supplies, and equipment were examined, and over \$1,800,000 was charged to operations.

3. Per option plans previously adopted by shareowners, 1500 shares were sold for cash (credited \$1500 to Common shares and \$28,935 to Capital in excess of par) and options on 72,700 shares were granted to officers and key employees during 1969. At December 31, 1969 options on 246,100 shares were outstanding at \$13.75 to \$26.17 each, market at dates granted.

ACCOUNTANTS' REPORT

To the Shareowners and Directors
Royal Crown Cola Co.

We have examined the consolidated financial position of Royal Crown Cola Co. and subsidiaries at December 31, 1969 and the related statements of consolidated current and retained income and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements mentioned above present fairly the financial position of Royal Crown Cola Co. and subsidiaries at December 31, 1969, and the results of operations and source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Birmingham, Alabama
February 14, 1970

Lybrand, Ross Bros. + Montgomery

MANAGEMENT

Officers:

WILLIAM T. YOUNG
Chairman of the Board

WILLIAM C. DURKEE
President, Chief Executive

LAWRENCE E. MOCK
Vice President, Finance

WILSON F. FOWLE, JR.
Vice President, Marketing

W. T. MILLER
Vice President, Production

MELFORD G. WOLFE
Vice President, Sales

ROBERT K. ROGERS
Vice President, Planning

RAY E. CROWLEY
Vice President, Corporate Development

A. G. HARGREAVE
Vice President, Franchise Development

W. NOLAN MURRAH, JR.
Vice President, Secretary and General Counsel

W. D. MORGAN
Treasurer

W. R. ROBINSON
Controller

AGATHA H. HARDEN
Assistant Secretary

Zone Officers:

J. J. HARFORD
Vice President, Eastern Zone
New York, New York

E. J. HOUGHTON, JR.
Vice President, Central Zone
Chicago, Illinois

GEORGE A. MORRIS, JR.
Vice President, Southern Zone
Atlanta, Georgia

L. EDWARD SMITH
Vice President, Western Zone
Los Angeles, California

Operating Division Officers:

REGINALD A. SINCLAIR, *President*
Royal Crown Cola Co. International
545 Madison Avenue, New York, New York

ROBERT M. WORDEN, *President*
Royal Crown U.S.A. Bottlers
1000 Tenth Avenue, Columbus, Georgia

SIDNEY A. HARRIS, *President*
National Art Company
1500 Commerce Street
Greenwood, Mississippi

Directors:

J. D. BOX
Retired
Columbus, Georgia

CASON J. CALLAWAY, JR.
President
Dixie Size and Chemical Co.
Columbus, Georgia

WILLIAM C. DURKEE
President, Chief Executive
Royal Crown Cola Co.

JOHN H. GLENN, JR.
*Consultant, National Aeronautics
and Space Administration*
Columbus, Ohio

W. H. GLENN
President
Pickett & Hatcher Educational Fund
Columbus, Georgia

CLARENCE B. HANSON, JR.
President and Publisher
The Birmingham News Company
Birmingham, Alabama

B. H. HARDAWAY, III
President
Hardaway Contracting Company
Columbus, Georgia

ARTHUR G. LINKLETTER
Television Artist and Producer
Los Angeles, California

THOMAS H. STANLEY
Chairman, Board of Regents
University System of Georgia
Columbus, Georgia

ARTHUR G. WAKEMAN
Business Consultant
Neenah, Wisconsin

WILLIAM T. YOUNG
Chairman of the Board
Royal Crown Cola Co.

Transfer Agents:

First National City Bank, New York 10015
The First National Bank, Columbus, Georgia 31902

Registrars:

Bankers Trust Company, New York 10015
Columbus Bank and Trust Company, Columbus, Georgia 31902

ROYAL CROWN COLA CO.
1000 TENTH AVENUE/COLUMBUS, GEORGIA 31902